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FISCAL IMPACT STATEMENT

LS 7218

BILL NUMBER: HB 1540

NOTE PREPARED: Jan 25, 2015

BILL AMENDED:

SUBJECT: Various Gaming Matters.

FIRST AUTHOR: Rep. Dermody

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill authorizes riverboats to move inland to adjacent properties.

The bill removes obsolete provisions in the riverboat admissions tax law. It transfers certain duties in the administration of riverboat admissions and wagering taxes from the Treasurer of State to the Auditor of State to conform to actual practice.

The bill extends until July 1, 2018, the availability of the deduction for wagers made by patrons using noncashable vouchers, coupons, electronic credits, or electronic promotions provided by the licensed owner or operating agent.

The bill authorizes table games at the racinos. It imposes a separate wagering tax on table games.

The bill establishes the Indiana Gaming Investment Tax Credit for certain capital investments that are made after December 31, 2015, and before January 1, 2021, by a licensed owner or operating agent of a riverboat or by a racino licensee. It provides that the amount of the tax credit is equal to 10% of the qualified capital investment made by the taxpayer during the taxable year. It specifies that the total amount of tax credits awarded may not exceed \$40,000,000 in a state fiscal year.

Effective Date: July 1, 2015; January 1, 2016.

Explanation of State Expenditures: *Indiana Gaming Commission (IGC)*: The bill would increase workload for the IGC. Any additional expenses would be paid from riverboat wagering tax revenue annually appropriated to the IGC for administrative purposes. (Note: Current statute provides that sufficient funds are

annually appropriated to the IGC from riverboat wagering tax revenue deposited in the state Gaming Fund to administer the riverboat gambling laws.) The 2013-2015 biennial budget bill appropriated \$3.4 M annually in FY 2014 and FY 2015 from the state Gaming Fund to the IGC for administrative purposes.

Explanation of State Revenues: Summary - A summary of the revenue impacts from the following provisions in the bill on state funds are specified in the table below.

- (1) Extension of the free play deduction for the riverboat casinos and racinos.
- (2) Allowing table games at the racinos.

State Funds/Agencies	FY 2016	FY 2017	FY 2018
State General Fund	\$1.3 M	(\$12.14 M)	(\$11.90 M)
Thoroughbred Breed Fund		(\$0.19 M)	(\$0.19 M)
Standardbred Breed Fund		(\$0.23 M)	(\$0.23 M)
Quarter Horse Breed Fund		(\$0.02 M)	(\$0.02 M)
TOTAL	\$1.3 M	(\$12.58 M)	(\$12.34 M)

Table Games at Racinos: The bill allows the racinos to apply to the IGC for permission to operate live table games. It sets a separate graduated tax rate for the adjusted gross receipts (AGR) from the table games at racinos. The estimated impact on state funds from these changes is summarized in the table below.

Tax Type	Fund Type	FY 2016	FY 2017	FY 2018
Racino Table Games Wagering Tax	State General Fund	\$11.37 M	\$14.63 M	\$14.70 M
Racino Slot Machine Wagering Tax	State General Fund	(\$3.98 M)	(\$4.88 M)	(\$4.89 M)
Riverboat Wagering Tax	State General Fund	(\$6.09 M)	(\$7.72 M)	(\$7.73 M)
TOTAL		\$1.3 M	\$2.03 M	\$2.08 M

FY 2016 estimates assumes nine months of operation at both racinos. Estimates are based on the share of the total AGR at Indiana riverboat casinos generated by table games. It is estimated that live table game operations at the racinos could displace: (1) gambling on virtual table games currently operated by the racinos; and (2) gambling on table games at competing riverboat casinos. The displacement of virtual table game activity would reduce slot machine wagering tax revenue from virtual table games. It is assumed that virtual table games generate about 7% of the AGR at the racinos and that half of that activity would shift to live table games. Displacement of table game play at competing riverboat casinos would reduce revenue from the riverboat wagering tax. It is estimated that about 39% of the racino AGR from slot machines is displaced from riverboat casinos. This estimate is based on the gaming revenue model adopted by the Revenue Technical Committee (December 18, 2014). FY 2016 impact could be lower to the extent that full scale table game operations may require construction of additional gaming floor space.

Promotional Free Play Deduction for Riverboat Casinos and Racinos: The bill extends the current \$5 M AGR deduction for promotional free play provided by a riverboat casino or racino to patrons for FY 2017 and FY 2018. Under current law the deduction expires on June 30, 2016.

The deduction could be claimed by the casino or racino against AGR at any time during a state fiscal year. The deduction reduces the taxable base for the riverboat wagering tax, the racino slot machine wagering tax, and the required set-aside of racino AGR for horsemen and other purposes. The estimated impact on the state General Fund from the free play deduction is summarized in the table below.

Tax Type	Fund Type	FY 2016	FY 2017	FY 2018
Riverboat Wagering Tax	State General Fund	<i>Current law providing free play deduction of up to \$5 M in AGR is applicable through FY 2016.</i>	(\$11.58 M)	(\$11.39 M)
Racino Wagering Tax	State General Fund		(\$2.59 M)	(\$2.59 M)
TOTAL			(\$14.17 M)	(\$13.98 M)

Based on the range of promotional spending reported by casinos in FY 2013, FY 2014, and FY 2015, it is estimated that 12 Indiana casinos will claim the maximum allowed \$5 M in deductions and 1 Indiana casino will claim \$4M in deductions. Some of the revenue loss from the promotional free play deduction could be offset if the deduction induces additional promotional spending by the casinos and racinos, which in turn increases the aggregate amount of spending by gamblers in the state. A small portion of the wagering tax revenue from the French Lick casino is distributed to the Indiana Economic Development Corporation (IEDC). Any revenue loss to IEDC is estimated to be minimal. The revenue loss estimates are based on the Revenue Technical Committee forecast (December 18, 2014) for gaming revenue.

The racinos are also required to pay between 10% to 12% of their annual slot machine AGR to the following purposes: (1) the state Breed Development Funds; (2) private horsemen's associations; and (3) horse racing purses. The promotional free play deduction is estimated to reduce the AGR that is the basis for this set-aside payment. The reduction would reduce revenue to the state Breed Development Funds which are administered by the Indiana Horse Racing Commission (IHRC). The impact on the Breed Development Funds is summarized in the table below.

Fund Type	FY 2016	FY 2017	FY 2018
Thoroughbred Breed Fund	<i>Current law providing free play deduction of up to \$5 M in AGR is applicable through FY 2016.</i>	(\$0.19 M)	(\$0.19 M)
Standardbred Breed Fund		(\$0.23 M)	(\$0.23 M)
Quarter Horse Breed Fund		(\$0.02 M)	(\$0.02 M)
TOTAL		(\$0.44 M)	(\$0.44 M)

Riverboat Relocation to Land-Based Facility: The bill permits a riverboat casino owner to relocate gaming operations from the riverboat casino to a land-based facility with the approval of the Indiana Gaming Commission (IGC), provided the land-based facility: (1) is located on property adjacent to the dock site of

the riverboat casino; (2) complies with all applicable building codes and any safety requirements imposed by the IGC; and (3) the licensee owner meets other conditions imposed by the IGC.

The potential fiscal impact of riverboat casinos around the state relocating to land-based operations is indeterminable, and it would depend on various factors including ownership, facility attributes, market factors, and capital availability. In this case, relocation to a land-based facility next to the dock site of the riverboat casino will not affect the geographic markets currently served by the riverboat casinos.

Indiana Gaming Investment Tax Credit: The bill provides a nonrefundable income tax credit for qualified capital investment on a gaming facility that exceeds \$2 M and is made towards: (1) onsite infrastructure improvements; (2) construction of a gaming facility or other buildings; (3) rehabilitation, alteration, or major repair of a gaming facility or other buildings or improvements; (4) installation of fixtures and equipment in a gaming facility or other buildings or improvements. The qualified capital investment must be approved by the IEDC. The tax credit is equal to 10% of the qualified investment. The tax credit could be claimed by a licensed owner, permit holder, or operating agent of any Indiana casino or racino. It provides that the tax credit can be carried forward for up to nine taxable years. The tax credit could also be assigned to taxpayers constructing amenities related to the gaming facility and that enhance the gaming experience. The assignment must be approved by the IEDC. The total amount of tax credits awarded may not exceed \$40 M in a state fiscal year. The tax credit could be claimed for investments made after December 31, 2015, and before January 1, 2021. This would mean that investment in up to six state fiscal years (FY 2016 to FY 2021) could qualify for the tax credit.

The provision in the bill allowing the casinos to move inland could increase the magnitude of the fiscal impact from this tax credit. An inland move would require substantial capital investment. Based on recent reports of investment in casinos in other states, it is estimated that the investment could be between \$200 M and \$400 M for each casino. Taking the midpoint of that and applying it to at least 10 Indiana casinos, tax credit related investment could be up to \$3.0 B. Based on the annual cap of \$40 M, the maximum impact from the tax credit could be up to \$240 M claimed for investment in six fiscal years. The actual impact could potentially be lower due to market factors restricting investments of large magnitude in the short term.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Table Games at Racinos:* The increase in net AGR from table games at the racinos would result in an increase in the 3% gambling game wagering tax (currently the county slot machine wagering tax). The bill applies the current tax to the combined AGR from slot machines and table games, and mobile gaming devices. The county tax is currently 3% of slot machine AGR generated at the racinos during the fiscal year, up to a maximum of \$8.0 M in annual tax liability.

The table games at racinos would result in decreased wagering tax collections from the riverboats. This could reduce wagering tax revenues distributed to certain local units. The estimated revenue impact of these provisions on local units receiving wagering tax revenue is summarized in the table below.

Local Unit	FY 2016	FY 2017	FY 2018
East Chicago	(\$0.13 M)	(\$0.31 M)	(\$0.31 M)
French Lick	(\$0.02 M)	(\$0.02 M)	(\$0.02 M)
Gary	(\$0.14 M)	(\$0.17 M)	(\$0.17 M)
Lawrenceburg	(\$0.21 M)	(\$0.27 M)	(\$0.27 M)
Michigan City	(\$0.16 M)	(\$0.20 M)	(\$0.20 M)
Rising Sun	(\$0.03 M)	(\$0.04 M)	(\$0.04 M)
Orange County	(\$0.02 M)	(\$0.03 M)	(\$0.03 M)
Orange Co. Development Commission	(\$0.02 M)	(\$0.02 M)	(\$0.02 M)
Orleans	(\$0.02 M)	(\$0.02 M)	(\$0.02 M)
Paoli	(\$0.02 M)	(\$0.02 M)	(\$0.02 M)
Switzerland County	(\$0.09 M)	(\$0.12 M)	(\$0.12 M)
West Baden Springs	(\$0.02 M)	(\$0.02 M)	(\$0.02 M)
Madison County	\$0.74 M	\$0.96 M	\$0.96 M
Shelby County	\$0.9 M	\$1.16 M	\$1.16 M
TOTAL	\$0.76 M	\$0.88 M	\$0.88 M

Promotional Free Play Deduction for Riverboat Casino and Racinos: The deduction reduces the taxable base for the riverboat wagering tax, some of which is distributed to local units, and the 3% county slot machine wagering tax. The estimated revenue loss to local units receiving revenue from these taxes is summarized in the table below.

Local Unit	FY 2016	FY 2017	FY 2018
Lawrenceburg	<i>Current law providing free play deduction of up to \$5 M in AGR is applicable thorough FY 2016.</i>	(\$0.38 M)	(\$0.38 M)
Switzerland County		(\$0.31 M)	(\$0.31 M)
Michigan City		(\$0.34 M)	(\$0.33 M)
Evansville		-	(\$0.13 M)
Rising Sun		(\$0.16 M)	(\$0.16 M)
East Chicago		(\$0.39 M)	(\$0.39 M)
Gary		(\$0.55 M)	(\$0.55 M)
French Lick		(\$0.08 M)	(\$0.08 M)
Orange County		(\$0.10 M)	(\$0.09 M)
Orange Co. Development Commission		(\$0.08 M)	(\$0.08 M)
Orleans		(\$0.05 M)	(\$0.05 M)
Paoli		(\$0.05 M)	(\$0.05 M)
West Baden Springs		(\$0.08 M)	(\$0.08 M)
Madison County		(\$0.13 M)	(\$0.13 M)
Shelby County		(\$0.13 M)	(\$0.13 M)
TOTAL		(\$2.83 M)	(\$2.94 M)

State Agencies Affected: Indiana Gaming Commission, Indiana Horse Racing Commission, Department of State Revenue, Indiana Economic Development Corporation, State Fair Commission, Indiana Horse Racing Commission.

Local Agencies Affected: Local Units receiving riverboat wagering tax, racino wagering tax.

Information Sources: Indiana Gaming Commission, Annual Report FY 2011-FY 2014; OFMA, Casino Data; Revenue Technical Committee Forecast (December 18, 2014);

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